I.3. MENA-OECD INVESTMENT PROGRAMME ACHIEVEMENTS AND DIRECTIONS

Making Investment Reforms SUCCEED: Launch of the Second Phase of the MENA-OECD Investment Programme

I. Background

Weak investment flows in early 2000…

At the beginning of 2000, the MENA region lagged behind other regions in attracting investment flows as compared to other emerging country regions. Taken as a whole, the MENA region attracted approximately 0.6% of global FDI inflows between 1998 and 2000.[1] The gap between the income per capita of most Middle East and North African countries and that of advanced industrial nations was wide and had further increased in the 1990s.

But emerging reform momentum…

Facing considerable competition from other regions and growing pressure from a young workforce, a number of governments in the region have identified an urgent need to implement serious economic and regulatory reforms to increase private sector participation in their economies. Investment climate reform has been therefore indentified as a key element of economic restructuring policy, undertaken by MENA countries in an effort to transform their economies from public sector dominated to private sector led economies. The specific policy changes have ranged from FDI liberalisation and administrative simplification to reform of investment and commercial legislation.

MENA Governments requested OECD expertise in 2004

The Organisation for Economic Co-operation and Development (OECD) was invited, alongside its key partners, to provide policy advice on implementing investment policy reform. Following this invitation, the MENA-OECD Initiative on Good Governance and Investment for Development was launched with the participation of 18 countries from the region (Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine National Authority, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen). The objective of the MENA-OECD Investment Programme, one of the two pillars of this Initiative, was to provide advice on improving the investment policy climate in the region.

Political support for improvements were expressed at 2006 Ministerial meeting

The first year of the Programme concluded with a Ministerial Meeting and Business Day held on 13-14 February 2006 in Jordan, which was attended by delegations of 16 MENA countries, represented by Ministers or high level officials from the relevant Ministries. The meeting concluded with a Declaration on "Attracting Investment to MENA Countries – Common Principles and Good Practice" which defines a regional framework for both

foreign and domestic investment. Ministers also endorsed an ambitious programme for regional dialogue and capacity-building developed by the five regional Working Groups of the Programme. The Ministers also noted the National Investment Reform Agendas, encompassing reform targets, developed by participating countries and encouraged their implementation.

Meanwhile, a significant rise of investment within and into the region occurred

The changes to the legislative and administrative frameworks of MENA countries have not gone unnoticed by the international investor community. Indeed, FDI in the region increased to US$ 42.6 billion in 2005, compared to US$ 14.1 billion in 2003.[2] The MENA region experienced a further sharp rise of FDI flows up to US$ 58.8 billion in 2006[3], in part due to increased investments in the petrochemicals sector and large privatisation projects. For the fifth year in a row, the MENA region enjoyed a robust pace of economic growth. Real GDP increased by 6.3 percent (estimated) in 2006, up from 4.6 percent during the first four years of the decade. Indeed, the region's growth performance in 2006 was one of its best since the 1970s.[4]

However, unemployment challenges persist

It has been estimated that approximately 100 million additional jobs would have to be created between 2000 and 2020 to employ all additional entrants to the labour market and reduce unemployment.[5] The region's aggregate unemployment rate fell from 14.3 to 10.8 percent of the labour force. The employment rate grew at 4.5 percent per annum from 2000 until 2005, which is the strongest rate of job creation among developing countries.[6]

And the quality of FDI flows need to support sustainable growth

Although investment flows have increased in the MENA region their level, quality and sustainability can still be improved. The focus of investment in the MENA region remains mainly in sectors such as travel and tourism, real estate and hydrocarbons. Regional disparities persist, with some countries such as UAE, Egypt and Algeria taking the lion's share of FDI inflows to the region. Moreover, there is still potential for local investment and greater entrepreneurship in the MENA region. The challenge for governments in the region is to focus on the design and implementation of policies which will have the greatest benefit for investment flows and private sector development in the short to medium terms.

The rise in FDI flows has been in the context of the global increase of such flows in emerging markets – the Economist Intelligence Unit estimates that inflows to emerging markets have increased to 510.7 billion USD by 2006 – which is an increase of 159.2 percent compared to the 197.0 billion USD in 2002.[7]

II. Achievements of the MENA-OECD Investment Programme

Achievements of the Investment Programme in 2005-2007 – MENA I

The Programme has realised a number of achievements through its regional dialogue on investment, as well as capacity-building activities provided to individual countries in the region.

The first phase of the Investment Programme had three main objectives:

1. to take stock of the relevant legal and regulatory framework in the region;

2. to establish time-bound targets to reform investment policies in the participating countries and work towards their implementation;
3. to create regional networks of private sector participants, key organisations, and Ministries and Agencies in the MENA countries.

The Programme has assessed the regulatory environment and key remaining challenges for investment policies

In relation to the first objective, the Programme has taken stock of developments in the **regulatory environment**, including key challenges in areas related to investment policy, investment facilitation, taxation, financial sector development, corporate governance and women's entrepreneurship. This work was synthesised in the thirteen reports issued for the Ministerial meeting held in February 2006. The reports reflected the inputs of the five Working Groups and seven Taskforces under the Programme. Most participating countries developed National Investment Reform Agendas and presented them at this Ministerial Meeting.

National Investment Reforms Agendas have been produced by many MENA countries

Work at the national level focused on the Programme's second objective - establishing time-bound targets for improving the investment environment. MENA governments have developed **National Investment Reform Agendas (NIRAs)** that include concrete measurable targets to be achieved in the short to medium term. The Steering Group reviewed these Reform Agendas at its meetings and has provided overall support to this process.

The targets in the Reform Agendas have subsequently been further refined. The following ten countries have defined their Reform Agendas and appointed national contact points to implement these reforms: Bahrain, Egypt, Jordan, Lebanon, the Palestinian Authority, Oman, United Arab Emirates, Morocco, Tunisia, and Yemen. Other countries are discussing their Reform Agendas, which will be finalised in the coming months. A National Investment Reform Agenda has equally been prepared with the government of Iraq; it contains projects aimed at establishing an independent investment promotion agency and strengthening the legal and institutional framework for investment.

NIRA workshops were held Egypt, Oman, Jordan, Morocco, Lebanon and the United Arab Emirates in 2006/07 to review and support the implementation of reforms in these five countries. These workshops were attended by Ministers and high level participants from Ministries of Investment, Industry, Finance and Economy as well as from investment promotion agencies. The workshops showed measurable progress in several areas and allowed the identification of new targets, as well as follow up of the existing ones. Each NIRA workshop has produced policy briefs that include recommendations and targets for further reforms.

Regional networks were created on key policy issues

The Programme has developed a wide network of government experts in its **5 Working Groups** which met in 3 rounds of meetings since 2005 and established supporting Taskforces. It has also created a substantial network of private sector organisations (i.e. the Arab Business Council, Business and Industry Advisory Committee to the OECD, the Arab Union of Banks, TOBB), among other private sector participants that attend the meetings of the Programme. In addition, the MENA-OECD Business Network organised a Business Day in conjunction with the Ministerial meeting, and presented "Investor of the Year" awards to 24 companies from the MENA region for

their innovation and employment creation.

Support of the private sector for innovation and entrepreneurship was mobilised

To support entrepreneurship in the region, including women's entrepreneurship, and to strengthen activities with the private sector, the Programme launched an initiative – the **MENA-OECD Enterprise Financing Network** – in 2006. This network aims at improving the regulatory conditions for financing entrepreneurship by using the Programme as a forum for dialogue between business and government representatives from the MENA and OECD countries. It has held two meetings and a Steering Board was constituted to guide the network.

And strong regional ownership was underlined by the establishment of regional centers

The opening of **regional centers** in coordination with the Programme has an important role in disseminating best practices and improving the business climate for private sector development. Such centers are also a strong expression of regional ownership. Bahrain has created a regional Centre for Investment and the United Arab Emirates a regional Institute for Corporate Governance (Hawkamah). Egypt has opened a regional Centre for Public Management and Tax Policy, for which an ambitious work programme has been developed. These centers provide a valuable support to the Investment Programme and demonstrate increasing regional ownership of its activities.

Adherence to international investment instruments can increase investor confidence

Several MENA countries are interested in participating in the activities of the OECD Investment Committee and in adhering to the **OECD Declaration on International Investment and Multinational Enterprises**. Egypt has officially adhered to the Declaration in 2007 and Jordan and Morocco have begun the process of adherence. Other countries have stated their interest as well.

And the Programme strengthened cooperation with other international organisations

The Investment Programme has strengthened its cooperation with **regional and international organisations** that are active in the MENA region in order to avoid duplication and increase synergies. There is active cooperation on corporate governance with the International Finance Cooperation's PEP MENA Initiative in the context of Working Group 5. Other joint projects with IFC partners are being explored, including support to One-Stop-Shops and activities to promote entrepreneurship. A workshop on the National Investment Reform Agenda of Jordan was organised jointly with UNIDO, leveraging synergies with UNIDO's investment forum. The Islamic Development Bank has agreed to cooperate with the Programme on business climate policy evaluation. Cooperation with the GCC is strengthening and the Programme will also co-operate with the Arab Monetary Fund in the area of financial market development. Cooperation with the European Commission is increasing and the Commission has received country-specific proposals for cooperation in line with the objectives of the European Neighbourhood policy country action plans. A joint project with the European Commission has been developed to assess enterprise policies in MEDA countries as part of the EU-Mediterranean Partnership.

III. Proposed content of the Investment Programme in 2008-2010, MENA II

While important results have been achieved in the first phase of the Programme….

Important results have been achieved in that the first phase of the Programme from 2005 to 2007 has succeeded in mobilising the investment reform process in participating countries and has managed to build networks for regional cooperation on investment policy issues. It has developed partnerships with international and regional organisations, created political support through a Ministerial Declaration, established a dialogue with the private sector and encouraged regional initiatives. The Programme currently focuses on the implementation of reforms and will carry out a first assessment of results on the occasion of the second Ministerial meeting, 27-28 November 2007, in Cairo.

However, it has become clear that more needs to be done to improve the investment environment in the region, develop the financial sector and create the right conditions for growth, development, employment and increase corporate responsibility. It was therefore proposed to the Council of the OECD to extend the Investment Programme for another three years (2008-2010) in the context of the OECD-MENA Initiative on Governance and Investment for Development (MENA II). The OECD Council decided on 10 May 2007 to extend the Programme.

Existing activities need to be deepened and new ones developed

For MENA II, the Programme will deepen existing activities as contained in the original Programme with the same country coverage which means that all MENA countries will continue to be eligible to participate in all activities. It is understood, however, that some activities will only involve those countries sharing common challenges and which are interested in particular aspects of the Programme. All participating countries will need to engage actively and contribute financially and/or in-kind in order to ensure the success and sustainability of the Programme.

The Programme will continue to focus on the implementation of investment climate reforms with a view to strengthen the frameworks and institutions needed to enhance economic growth, job creation and corporate responsibility. It will emphasise the non-discriminatory participation, in particular of women in all activities organised. All activities will be implemented in close cooperation with the Programme's partner organisations.

A new Business Climate Development Strategy will strengthen the business climate improvements efforts

The second phase of the Programme will start with the implementation of the agreed NIRAs and mobilise support for implementation by bilateral and multilateral development agencies in a more structured way. At a meeting of the Steering Group in Paris on 29 March 2007, the MENA-OECD Investment Programme agreed "to develop a comparative benchmark to evaluate investment policy reform based on the Policy Framework for Investment, the Investment Reform Index, and taking into account the experience with other regional programmes." The request for a more structured approach to prioritising business climate reforms and assisting in

their implementation was formulated by MENA countries during the first phase of the MENA-OECD Investment Programme. The proposal for establishing a Business Climate Development Strategy (BCDS) reflects the comments made by participants of the Steering Group meeting of the Programme held on the 5 September 2007 in Jordan. The proposed initiative presents an integrated approach towards assessing and prioritising business climate reforms in the MENA region.

The BCDS will complement and support ongoing efforts of the MENA-OECD Investment Programme, such as the implementation of the Enterprise Policy Index in MEDA countries. Existing national development strategies of MENA countries and National Investment Reform Agendas will be fully integrated into the BCDS. As with previous work of the MENA-OECD Investment Programme and that of the World Bank (in particular in efforts on the Investment Climate Assessments), the private sector will be actively engaged and general public awareness of this effort will be raised.

Continue the regional peer dialogue process in Working Groups and Task Forces

The implementation of the MENA-OECD Investment Programme will continue to be guided by regional peer dialogue and exchange of experience amongst participating countries, taking into account concerns of business and civil society organisations. Building on the achievements of MENA I, intensified regional capacity-building activities of MENA II will draw on additional instruments to support and facilitate reform design and implementation, including focused peer-to-peer learning activities, regional centres and increased emphasis on monitoring and measuring reform progress.

Continue use of existing organisational structure

The basic organisational and institutional structure of the Initiative will be similar to MENA I. Ministerial meetings will provide political support, Steering Group meetings will provide guidance to the work and Working Groups and thematic task forces will provide the key instruments for regional policy dialogue.

Strengthen Cooperation and private sector input

Cooperation with regional and international partner organisations will be strengthened and synergies developed with the bilateral and multilateral programmes on capacity-building support and technical assistance (e.g. the EU Neighbourhood programmes, UNIDO, World Bank, MIGA/FIAS, IFC PEP MENA and the activities of the Islamic Development Bank, the GCC and other regional funds).

Private sector input into the Initiative will be further developed. The partnership with the Arab Business Council, the involvement of the private sector in the events conducted by the MENA-OECD Investment Programme, and innovative initiatives like the OECD-MENA Enterprise Financing Network will help strengthen private sector support and add momentum to the governance and investment reform process in individual countries. Women's and youth entrepreneurship will be further encouraged.

Expanding regional ownership through support for regional centers

Existing and future regional Centers such as the Hawkamah Center in Dubai or the MENA Investment Center in Bahrain can play an important role in supporting the activities of the programme and disseminating its results.

NOTES

1. UNCTAD (2001), *World Investment Report 2001: Promoting Linkages*, New York/ Geneva, p. 256. Due to different definition of MENA, this figure refers to the 18 countries participating in the MENA-OECD Investment Programme except for Djibouti, and Cyprus, Iran, Sudan and Turkey.

2. UNCTAD (2007), *World Investment Report 2007: Transnational Corporations, Extractive Industries and Development*, p. 251-3; UNCTAD (2006), *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development*, p. 299-302.

3. UNCTAD (2007), *World Investment Report 2007: Transnational Corporations, Extractive Industries and Development*, p. 251-3.

4. World Bank (2007), *2007 Economic Developments and Prospects: Job Creation in an Era of High Growth*, p. 102. Due to different definitions of MENA region, these figures include Iran, but exclude the Palestine National Authority. Iraq is not included either; growth rates including Iraq amount to (estimated) 6.2 percent in 2006 and 4.0 percent in 2000-03.

5. World Bank (2003), *Unlocking the Employment Potential in the Middle East and North Africa: Towards a New Social Contract*, p. 171. This figure refers to the 18 participating countries in the OECD-MENA Investment Programme except for Djibouti, and Iran. It is based on an estimated unemployment rate of 15 percent in 2000.

6. World Bank (2007): *Economic Developments and Prospects: Job Creation in an Era of High Growth*, p. 40, 49, 129. These figures refer to a country sample of 12 countries, namely Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Morocco, Qatar, Saudi Arabia, Tunisia, United Arab Emirates and the West Bank and Gaza.

7. Economist Intelligence Unit (2007): *World Investment Prospects to 2011: Foreign direct investment and the challenge of political risk*, p. 6.

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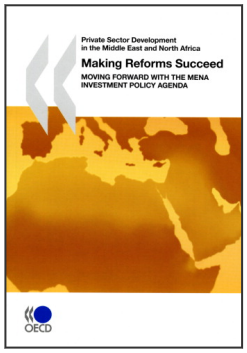

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